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C O N F I D E N T I A L SECTION 01 OF 03 SOFIA 001554

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TAGS: [ECON](#) [ENRG](#) [PGOV](#) [RU](#) [BU](#)
SUBJECT: BULGARIA, TURKEY AND GREECE WANT MORE U.S.
INVOLVEMENT ON GAS AND SOUTHERN CORRIDOR ISSUES

Classified By: Amb. John Beyrle for reasons 1.4 B & D

¶1. (C) SUMMARY: Political and energy leaders from Bulgaria, Greece and Turkey told EUR DAS Bryza on November 3 that the U.S should play a stronger role in ensuring diversity of energy supply - particularly gas - in the region. Bryza stressed the need for countries in the region to work together to secure diversified sources of gas supply, which can increase commercial competition for European markets, and reduce the price differential between Caspian and European gas, (which generates enormous rents that fuel corruption, organized crime, inefficient markets, and higher prices for consumers). The officials shared U.S. concerns about Gazprom possibly using coercive tactics this winter such as gas cutoffs and predatory acquisition of Georgian energy assets. Several requested increased U.S. involvement - use of our bully pulpit and private sector participation in projects and markets - to deter Gazprom from such coercive behavior. President Parvanov said having greater involvement by Western stakeholders would bring greater security and help small nations such as Bulgaria in standing up to Russia. END SUMMARY

¶2. (C) EUR DAS Matt Bryza and Ambassador Beyrle held separate meetings in Sofia on November 3 with Bulgarian President Parvanov, PM Stanishev, Foreign Minister Kalfin, Minister of Economy and Energy Ovcharov and Minister of Regional Development Gagauzov; Greek Minister of Economic Development Sioufas; and Turkish Minister of Energy Guler to discuss regional energy issues and encourage the Bulgarians and others to stand strong in the face of increased Russian pressure.

SOUTHERN CORRIDOR (TGI): RUSSIANS ACTING BADLY

¶3. (C) The first phase of the gas pipeline from Azerbaijan to Turkey is almost complete and ready for gas. Turkish Minister Guler told Bryza that he (Guler) had convened a meeting on November 2 of representatives of the Governments of Turkey, Bulgaria, Romania, Hungary, and Austria to scope out a plan to advance the Nabucco pipeline with Azerbaijani gas. Azerbaijan is worried Russia may cut gas supplies this winter if Baku agrees to ship gas to Georgia or Turkey (in accordance with Azerbaijan's contractual obligations). Guler noted that BP and Statoil want to expand gas production at Azerbaijan's Shah Deniz field and ship it to Georgia and Turkey, but need a clear political decision from the Government of Azerbaijan that it wishes to export the next phase of Shah Deniz production.

NO SOLUTIONS THIS WINTER

14. (C) Guler said Turkey was ready to negotiate a gas transit agreement with Azerbaijan, but Baku is balking. Bryza predicted that Azerbaijan would engage Turkey in such talks as soon as it concluded its gas supply contract with Gazprom for this winter. Bryza described Russian threats to cut gas supplies to Azerbaijan and Georgia as coercive and unacceptable, and said the USG was preparing to respond to such threats by calling into question Gazprom's reliability and competitiveness as a gas supplier. Guler insisted that the U.S. needs to be very vocal about Gazprom, and suggested the U.S. could even lose support in the region if it didn't confront Gazprom.

15. (C) In a separate meeting, Bulgarian President Parvanov echoed Bryza's hope that by increasing commercial competition for European gas markets, European states could nudge Gazprom to transform into a "normal" company.

GREEKS AND ITALIANS TAKING GAS ONLY FROM CASPIAN

16. (C) Greek Minister of Economic Development Sioufas asked about the IEA meeting on the Southern Corridor of gas pipelines (extending from Azerbaijan through Georgia and Turkey, and into Greece and Italy). Bryza said the IEA now planned to convene the meeting early in 2007 for a discussion that would encompass expanded gas production in Azerbaijan, the Turkey-Greece-Italy and Nabucco Pipelines, and the Treaty of Athens, (which aims to harmonize gas and electricity markets in Southeastern Europe). Sioufas stressed that Greece took a political and economic risk by signing a bilateral agreement with Italy which said the two countries would take gas from the Caspian region only, in an effort to clear the way for Greece to diversify its sources of supply

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by securing gas from Azerbaijan. Sioufas recognized such an approach was essential to eliciting more cooperative behavior from Gazprom by relying on commercial competition.

TURKEY READY TO TALK GAS PIPELINES WITH IRAQ

17. (C) Turkey would like to explore all options to increase gas flow to and through Turkey. Guler asked the USG to take three concrete steps: 1) to assist Turkey and Iraq to bring Iraqi gas to Europe. Turkey is ready to discuss this with Iraq, and Bryza and Beyrle have been in touch with U.S. Embassy Baghdad to set up a Turkey/Iraq/USG meeting in the near future; 2) to support Samsun-Ceyhan as the first Bosphorous Bypass for oil (septel); 3) to assist in shipment of Compressed Natural Gas from Turkmenistan through Azerbaijan and on to Turkey by barge, boat, train or truck. Guler felt this last project would not be economical, but would be a symbolic signal to Russia, even if it took a few years. Bryza pledged to work with Turkey in all three areas.

BULGARIA WANTS TO CONNECT TO TGI

18. (C) Energy Minister Ovcharov expressed general agreement with the Southern Corridor strategy outlined by Bryza, and noted that Bulgaria sought to build a 70 KM spur off the Greek portion of the Turkey-Greece-Italy pipeline. Although small in actual volume, Ovcharov felt this use of Azeri gas would set an important precedent for helping Bulgaria and Southeast Europe diversify their sources of gas supply. In a separate conversation, Greek Minister of Economic Development Sioufas said he would have to wait to see the written proposal, but had no objections in principle.

NABUCCO

19. (C) Bulgaria is supportive of the Nabucco gas pipeline

(linking Turkey, Bulgaria, Romania, Hungary, and Austria), but not strongly enough to take the lead. PM Stanishev asked if the USG could help make Nabucco a priority for the EU and to help secure gas supplies from Azerbaijan; now it is only of interest to countries on the route. He bemoaned the lack of political will to get the project done, and put in a plug for U.S. financing. Guler informed Bryza that he convened the five country shareholders in Istanbul on November 2 and wanted to assure the USG that Turkey is supportive and wants to expedite the project. Guler agreed on the need to work with regional governments, but said we shouldn't trust European countries such as Germany, Austria and Hungary, because they all need gas and have been talking to the Russians.

¶10. (C) In response to Guler's comment that Iran was ready to participate in Nabucco, Bryza stressed that the U.S. could support the pipeline only to transport non-Iranian (and, especially, Azerbaijani) gas. The USG would oppose any attempt to use Nabucco to export Iranian gas to Europe. Bulgarian PM Stanishev suggested that Turkey's desire to be a broker of gas sales, rather than just a transit country, was a problem, and sought U.S. help in convincing Turkey to act strictly according to market principles. Greek Minister of Economic Development Sioufas also expressed concern that Turkey not overplay its hand by trying to act as a broker of gas sales.

BULGARIA LIKELY TO ANNOUNCE LONG-TERM CONTRACT WITH GAZPROM

¶11. (C) Despite Beyrle's warning against signing long-term contracts with Gazprom since Nabucco, TGI and other options could be on-line within five-seven years, Bulgaria is likely to announce soon a 20-year contract. Ovcharov explained this as a way to guarantee a source for part of their gas needs, but stressed that Bulgaria will be able to adjust the contract terms every three years, and expand the current grid. Bulgaria wants to guarantee a competitive supply at least until 2015. Although negotiations with Gazprom began in a hostile manner last winter, Ovcharov and PM Stanishev pointed out that they are more businesslike and "normal" now.

¶12. (C) Bulgaria is also discussing with Gazprom a proposal to build new pipelines into Serbia. Ovcharov claimed Bulgargaz would operate the new routes, but ownership could be shared with Gazprom. Ovcharov and Stanishev took on board Beyrle's and Bryza's exhortations to look for alternatives to

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Gazprom, to maintain control over their own infrastructure, and to stand together with other EU members to get better commercial terms from Gazprom. Ovcharov responded that as soon-to-be members of the EU they would follow Brussels's lead on energy policy, but he was concerned about the seriousness of the EU's efforts. He said Bulgaria would support any and all routes for diversification, including Nabucco, TGI and Liquefied Natural Gas terminals. Turkey would allow LNG through the Bosphorous but both Guler and Ovcharov acknowledged this option would be expensive for Bulgaria and Romania.

BULGARIAN ENERGY DECISIONS NEED HIGHER-LEVEL PARTICIPATION

¶13. (C) Concerned about Minister Ovcharov's reputation as a lone operator with close ties to Moscow, Amb. Beyrle asked PM Stanishev if the government had any system or body to provide oversight on national security issues related to energy. Stanishev seemed to take the hint and said he would consider this idea and figure out how to better coordinate energy security policy.

BLUE STREAM

¶14. (C) Ovcharov agreed with Bryza that Blue Stream was not commercially viable, and Blue Stream,s planned expansion would make even less commercial sense, but was being pursued by Gazprom and the Kremlin to block Azerbaijani gas from filling the Nabucco pipeline. Greek Minister of Economic Development Sioufas was concerned that Italy's ENI, along with Turkey, was planning an agreement on Blue Stream II that would undercut Nabucco as a means of diversifying sources of supply away from Gazprom.

COMMENT

¶15. (C) Bryza's visit was essential to our ongoing efforts to get the attention of top-level Bulgarian players and share with them our information, concerns and vision on how best to leverage their position vis-a-vis intense Russian, (i.e., Gazprom) pressure. The two elected leaders, President Parvanov and PM Stanishev, clearly understand the message and appear to be sincerely looking for ways to cooperate with the U.S., EU and regional governments in order to reduce Russia's strong influence here. However, clear alternatives to relieve the pressure are scarce or, in the case of the TGI pipeline spur, low volume. Bulgarian Foreign Minister Kalfin's December meetings in Washington will give us a chance to amplify our message that Bulgaria's energy security is of concern to us, and to provide updated information on alternatives like Azerbaijani gas.

This cable was cleared with DAS Bryza.
BEYRLE